STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

The Peoples Gas Light and Coke Company	)	
	)	
	)	Docket No. 16-0033 and 16-0034
	)	(cons.)
	)	
Proposed addition of a new service called	)	
Rider Purchase of Receivables	)	

REBUTTAL TESTIMONY OF BRYAN MCDANIEL

ON BEHALF OF THE CITIZENS UTILITY BOARD

CUB EXHIBIT 2.0

July 19, 2016

Q. Please state your name and business address.

A. My name is Bryan McDaniel and I am employed by the Citizens Utility Board ("CUB") as Senior Policy Analyst-Government Liaison. My business address is 309 West Washington, Suite 800, Chicago, Illinois 60606.

Q. Are you the same Bryan McDaniel who previously filed testimony in this proceeding?

A. Yes, I filed Direct Testimony on May 25, 2016 on behalf of CUB.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to Retail Energy Supply Association ("RESA") and Illinois Competitive Energy Association ("ICEA") witness Kevin Wright regarding Rider Purchase of Receivables ("Rider POR"), as proposed by Peoples Gas Light & Coke Company ("PGL" of "Peoples Gas") and North Shore Gas Company ("North Shore Gas" or "NS"), (collectively, "the Companies"). I will explain why nothing in Mr. Wright's testimony alleviates my concerns about Rider POR, and that I continue to recommend that the Commission deny Rider POR.

Q. Please summarize your response to Mr. Wright's Direct Testimony.

A. Mr. Wright's Direct Testimony mainly describes the theoretical benefits of Rider POR. Many of these theoretical benefits, however, largely accrue to the alternative gas suppliers ("AGS") and not residential customers. Mr. Wright focuses on the benefits to suppliers being able to avoid the cost of collection. When referencing benefits to residential customers, the primary benefit Mr. Wright points to is the availability of alternative gas choice broadening to a larger customer base; that is, lower income customers that are higher credit risk. Mr. Wright also vaguely claims that the reduction in AGS collection costs "will be passed on to customers through lower prices and more dynamic products offered by AGS." (ICEA/RESA Ex. 1.0, page 12) His claims appear to rely on general economic theory, specifically the idea that more suppliers equals better offers, though the experience in Illinois electric market – with POR – does not support that theory. Mr. Wright's theories, however, provide no assurance that RESA's or ICEA's members will be able to offer rates that beat the utility price-to-compare and offer cost savings to customers.

As I pointed out in my Direct Testimony, because AGS offers tend to be higher, and often much higher, than the utility price-to-compare, and because Rider POR would facilitate, and indeed encourage, AGS marketing to lower income and less credit-worthy customers, the consequence of Rider POR is likely to be continued higher rates for consumers and better profit margins for AGS who would have utilities collect their bills for them. . These higher supplier rates will put pressure on low income heating assistance programs ("LIHEAP"), and lead to increased utility service termination.

While POR may lead to more suppliers serving the market, because of decreased operating costs for suppliers, neither Mr. Wright, nor the Companies, have provided any evidence that this increased marketing activity will result in lower gas costs for residential customers, as the recent experience in the Illinois electric market has borne out. The real world experience of Illinois consumers with gas and electric choice simply does not synch with Mr. Wright's theoretical claims of customer benefits. The only parties sure to benefit under Rider POR are, in fact, the suppliers themselves.

Q. Please comment on Mr. Wright's Direct Testimony at lines 93-106 regarding the "advantages from a policy perspective of having a POR program."

A. The "advantages" listed mostly accrue to AGS. The collection benefit accrues to the AGS, not the customer, as the AGS defers its costs of collection to the utility. Mr. Wright also discusses AGSs ability to offer service "to all residential and small commercial customers, regardless of their income or the size of their load" as a public policy benefit of POR. I question the propriety of a public policy that encourages AGS to increase marketing to credit challenged and low income customers, when history demonstrates that AGS offers are likely to be higher than the utility price-to-compare. Approving a POR tariff would have the effect of allowing AGS to tap into LIHEAP dollars, because many low income and credit-challenged customers are provided LIHEAP assistance, and higher AGS rates increase customer bills higher than they would be with utility supply. The effect would be reducing the amount of LIHEAP for qualifying customers who desperately need those funds to maintain utility service.

Q. What other "advantage" of a POR claimed by Mr. Wright do you take issue with?

A. The final "advantage" provided by Mr. Wright is that "POR programs facilitate market entry by competitive suppliers." Mr. Wright provided no evidence, aside from vague generalizations, that more AGS in the market produces customer benefits and lowers gas supply rates below the utility price-to-compare. I do agree with him that POR definitely will increase the number of suppliers in Illinois; however, this will not lead to savings as he implies, and as the Illinois electricity POR experience has proven, which I will discuss in greater detail below. .

Q. Mr. Wright discusses the benefits of reduced billing and collection costs. Please respond.

A. Any business would have lower costs if they were not required to perform the billing and collection function. Mr. Wright did not quantify the cost of AGS billing and collection costs, and therefore those benefits are speculative and undefined. At a minimum, however, Mr. Wright's claim that "by reducing the collection costs to AGS, AGS can pass that savings on to customers with lower prices," is unsupported. There is no evidence POR will lead to lower AGS offers.

Q. **Mr. Wright testifies at lines 173-174 that there "are limited consequences for not paying a bill, such as the case with an AGS." Do you agree?**

A. While an AGS is not authorized to disconnect utility service of a customer for non-payment, the AGS can report that customer to credit and collections, which will also adversely affect a consumer's credit report. A consumer's credit score is a very important number, it can determine whether they will be approved for a loan, or even offered the job they are seeking as many employers will credit check an employee before hiring them. Moreover, if a customer does not pay their AGS bill an AGS can employ multiple collection tools to recover that past due bill, as Mr. Wright acknowledged in response to CUB 2.03.

> In the event of non-payment by a customer, an AGS may pursue various avenues to collect unpaid funds. The exact type of collection activity would depend upon the amount owed by the customer, the AGS, and other factors. Before the AGS would discontinue supplying gas to the customer's account, the AGS may attempt to collect through communication or Dunning. If unsuccessful, pursuant to the terms of the contract between the AGS and its customer, that AGS could stop providing gas to the customer and turn the account back to the gas utility. An AGS may continue to collect the unpaid amount using any or all of the following methods: notices and letters, telephone calls, reporting the debt

to a credit agency, using a collection agency, using legal services, etc. In any particular scenario, an AGS may use or avoid a particular technique or approach.

Q. At lines 215 to 221 of his Direct Testimony, Mr. Wright describes how suppliers would have their own discount rate, after an initial term, which is tied to the utility Rider UEA filing. Please comment.

A. As proposed in the PG/NSG tariff, after an initial term, the Companies would determine the discount factors for each Companion Classifications using data underlying the POR Suppliers' customers' uncollectibles. I believe a more accurate and fair approach would be to determine a discount factor for each individual AGS, so each AGS is charged a discount factor that more accurately reflects the effect on uncollectibles of its customers. While this is preferable to simply using the utility uncollectible history to determine the discount rate going forward (after an initial term), a more effective way of holding suppliers responsible for their offers would be to determine a discount rate for each individual supplier. This suggestion would not be necessary, however, if the Commission adopted the proposal in my Direct Testimony to limit POR to the PGA price, as then supplier uncollectibles purchased by the utility would not be larger than the those associated with utility sales.

Q. Do you agree with Mr. Wright's claim that POR is responsible for the success of electric competition?

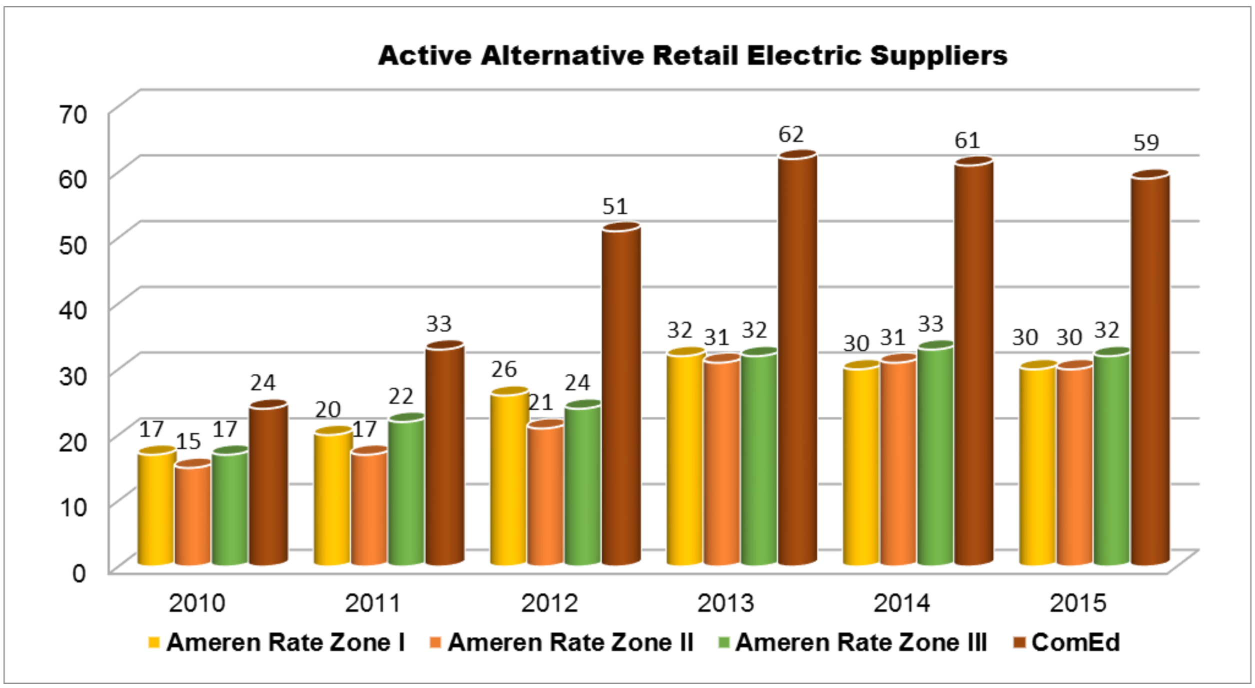
A. No. Mr. Wright claims that "[i]t is well known that the Illinois residential competitive market has expanded greatly since the implementation of POR," a claim that does not acknowledge that electric municipal aggregation accounted for the vast majority of customer switching – not the existence of POR. While Mr. Wright does acknowledge that two major factors effected the Illinois electric market which facilitated higher switching numbers (namely an inflated to price-to-compare and municipal aggregation), Mr. Wright nevertheless claims that the "availability of POR for electric customers and the lack of POR for gas customers have resulted in very different rates of participation in the Choice Program of electric and gas utilities." (333-335). This is not an accurate statement. Electric municipal aggregation accounted for the vast majority of customer switching, and not the existence of POR. In fact, POR is not essential for municipal aggregation, and it is entirely possible the same level of municipal aggregation would have occurred in the absence of POR.

Q. Mr. Wright compares the switching levels of electric and gas Illinois choice programs and concludes that "the availability of POR for electric customers and the lack of POR for gas customers have resulted in very different rates of participation in the Choice Programs of electric and gas utilities." Do you agree that POR is the main driver of the difference in participation rates between Illinois' electric and gas choice programs?

A. No. Mr. Wright cited May 2015 choice program participation rates by utility, which shows significantly increased participation among electric utilities. According to the 2016 Office of Retail Market Development Annual Report, however, 70% of residential customers with an ARES were in a municipal aggregation program in 2015. The ORMD State of Market Report 2016 states that "In May of 2016 64% of residential ARES customers were part of a government aggregation program, a decline of about 6% points from last year." (ORMD State of Market Report 2016, page 4) This data can only support the conclusion that municipal aggregation is the reason for high switching numbers in the Illinois electric market, not the existence of POR.

Q. What about Mr. Wright's argument that offers and numbers of suppliers would increase under POR?

A. I do not dispute more suppliers would enter the market if Rider POR were approved. That would be expected as it would be so much cheaper to become a supplier, as has been demonstrated with electric competition in Illinois. The ORMD report on the electric market from 2016, for example, shows a steady rise of the number of registered electric suppliers from 2010 to 2013, with the number leveling off since 2013.



SB 1299, which created electric POR, passed the 95th General Assembly in 2007. The Governor signed the bill in November of 2007. The Office of Retail Market Development still has the page for the workshops concerning the implantation of that law.

https://www.icc.illinois.gov/ormd/UtilityConsolidatedBillingAndPurchaseReceivables.aspx

The last workshop listed took place in March 2009. ComEd filed their POR Tariff on January 20, 2010 in Docket 10-0138. The number of suppliers entering the market not surprisingly increased with the implementation of POR because of the reduced costs to entering and operating in the Illinois electric market. However, whether there are 1000 suppliers or 10, what matters to consumers is how the actual offers compare to the utility price. I have not found that an increase in suppliers has led to better offers in the competitive electric market. In fact, in recent years, supplier offers have become worse compared to the utility price.

ORMD included a table in their 2016 State of the Market report (pg. 35) that shows that residential savings in ComEd territory from electric choice have decreased during the same time period there has been an explosion in the numbers of suppliers. In the first 5 months of 2016 residential consumers have already paid $115 million (including the PEA) in electricity prices above the utility rate to suppliers. As the table illustrates, as more suppliers have entered the market, consumers' costs have increased:

Planning year Ending in May	Annual Savings compared to ComEd's PTC (in million)	Annual Savings inclusive of the PEA Impact (in million)
2012	**$17.2**	**$24.2**
2013	**$250.8**	**$257.5**
2014	**-$40.2**	**$38.7**
2015	**-$12.3**	**-$73.4**
2016	**-79.7**	**-115.2**
Five-year Total	**$135.8**	**$131.80**

The addition of suppliers operating in a market does not, therefore, equate to consumer savings, as Mr. Wright claims or suggests throughout his testimony. In the case of Ameren, ORMD only began performing such a savings analysis this year, but found that overall, consumers in all three Ameren Rate Zones paid more to suppliers for electric service then they would have paid the utility when including the PEA. (ORMD Report pg. 38) The ORMD study also only looks at offers posted to PlugIn Illinois, which is only done by about half of the active suppliers. I believe the savings and loss numbers would be even worse for consumers if ORMD had looked at all offers. For example, of the 57 active suppliers of ComEd territory as of May 2016 only 31 are posting offers on PlugIn Illinois. In the case of Ameren, as of May 2016 there were 25 active suppliers and only 13 posting offers on PlugIn Illinois. (ORMD Report pg 39&40)

Q. Mr. Wright claims that the benefits of POR will result "in a broader segment of consumers enjoying the benefits of retail competition, including lower prices, and the ability to select from multiple energy options." Do you agree?

A. No. ICEA/RESA have not provided any assurance that the existence of Rider POR would lead to lower prices. As shown above, actual experience with the electric market has demonstrated that the existence of a POR tariff has not translated to rates that are below the utility price-to-compare. While the existence of a POR tariff in PGL/NS territory will undoubtedly cause more suppliers to enter the market, there is no evidence that competitive prices will result.

Q. Mr. Wright claims that "the evidence is overwhelming that POR contributes to increased customer access to benefits of participation in the competitive market and, therefore, increase customer migration." What evidence is Mr. Wright referencing?

A. In response to CUB 2.05, in which CUB requests ICEA/RESA to support this statement, ICEA/RESA responded by referring to Mr. Wright's testimony at 15-19. In those pages, Mr. Wright discusses the experience in other states with POR and the experience in the Illinois electric market. The evidence presented above undermines Mr. Wright's assumption that the mere existence of POR increased customer migration in the Illinois electric market above. As to the experience in other states, Mr. Wright's "evidence" consists of conclusory statements like "Utility POR programs have increased competition in a number of states." This is not an evidentiary basis on which the Commission can rely to conclude that customer benefits are likely to result from approval of Rider POR.

Q. Is beating the utility price-to-compare the only concern when determining whether Rider POR should be approved?

A. While it is not the only concern, it is CUB's primary focus. Not beating the utility price-to-compare means higher bills for consumers than they would otherwise pay the utility and also increased incidence of disconnection, and the draining of LIHEAP funds, which means fewer consumers will be able to access LIHEAP. In CUB 2.06, CUB requested Mr. Wright to "identify all rates offered by each alternative supplier member of RESA in Illinois from January 2015 to present that have resulted in the customer who has contracted with the supplier to pay less to the alternative supplier than she would have to her utility over the life of the contract." After providing legal objections, Mr. Wright responded that:

> Two AGS products (or an AGS product and the PGA) may have the same price, but have different terms and conditions. As between an AGS product and the PGA rate, one important difference is the customer's risk tolerance; a second factor would be a customer's ability to control usage through efficiency and demand management, adjustment of production or schedules, fuel switching, *etc*. These values vary from customer to

> customer. In addition, some products may come with value-added hardware or services. Different customers will value these value-added products and services differently. Thus, the question of whether a particular customer will "pay less" is an overly simplistic and narrow approach to evaluating the value of an AGS product (or, for that matter, the PGA) to a particular customer.

The so-called "value-added hardware or services" are often either a programmable thermostat (like a Nest Learning Thermostat), or gift cards, airline miles, etc. This ancillary and hypothetical "value" should not be considered in evaluating the justness and reasonableness of Rider POR for two reasons. First, these products or services are not included in the definition of CFY Supplier Charges in proposed Rider POR, and therefore the receiveables associated with these products or services (often AGS require payment for products if customers cancel before some period of time with the supplier, usually a year) cannot be included in the receiveables purchased by the utility through Rider POR. Second, these inducements to sign up with an AGS are often associated with rates that are higher than the utility price-to-compare, which means that customers are paying for it in their gas costs, and the actual "value" provided by these inducements is, therefore, minimal, nonexistent, or customers may even be paying far more than if they had simply purchased those products or services independently.

Q. Mr. Wright concludes that "the evidence is overwhelming that POR contributes to increased customer access to the benefits of participation in the competitive market and, therefore, increased customer migration." (at 19) Have you seen evidence that other states are concerned about the impact of "increased customer access" of lower income customers' to the competitive market?

A. Yes, the New York Public Service Commission ("NYPSC") recently issued a moratorium on Energy Service Companies ("ESCO," the equivalent to our term "AGS") enrollments and renewals by participants in a utility low-income assistance program (Assistance Program Participant, or "APP") in the retail gas market, because of NYPSC's concern that mass market customers, including APPs, were not receiving beneficial service from ESCOs, and "the higher prices charged by ESCOs often exceed the amount of the assistance provided to the APP, and thus the goal of reducing that customer's bill is undermined." The NYPUC shares many of the same reservations around supplier offers that CUB does; mainly, that supplier offers are well above the utility price and are draining LIHEAP resources at an accelerated rate and therefore fewer consumers are able to access LIHEAP. The NYPSC concluded that "[t]his moratorium is necessary to ensure that the financial benefits provided to APPs through utility low-income assistance programs are not absorbed by ESCOs, who in turn, provide gas and electricity at comparatively higher prices, without any corresponding value to the APP." (at page 10) I have attached a copy of the July 14, 2016 NYPSC Order as Ex. 2.1 to this testimony.

Q. Should the ICC approve the POR tariffs for PG and NSG?

A. No. Neither the Companies nor ICEA/RESA have demonstrated that Rider POR is just and reasonable in light of CUB's concerns, nor has either party shown that Rider POR will provide benefits to the Companies' ratepayers. If the ICC determines that Rider POR should be approved, CUB respectfully requests that any receivable purchased by the utility is limited to the PGA price for that month, as described on pages 10-11 of my Direct Testimony.

Q. **Does this conclude your rebuttal testimony?**

A. Yes.